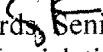


MEMORANDUM

October 20, 2011

TO: Audit Committee

FROM: Sue Richards,  Senior Legislative Analyst
Office of Legislative Oversight

SUBJECT: Updates from the Office of the Inspector General and the Office of Internal Audit, and Office of the Inspector General's Work Plan

On October 6th, the Audit Committee has three agenda items. The tables below summarize the items, the recommended time for the Committee's discussion and the participants expected to attend the worksession.

Item #	Topic	Suggested Time	Discussion on page -	Materials on © page
1	An update from the Office of the Inspector General	10 minutes	2	NA
2	An update from the Office of Internal Audit	10 minutes	2	NA
3	Work Plan and Projected Budget for the Office of the Inspector General	20 minutes	3	1

Item #	Department/Office	Staff
1	Office of the Inspector General	Edward L. Blansitt III, Inspector General
2	Office of Internal Audit	Larry Dyckman, Manager
3	Office of the Inspector General	Edward L. Blansitt III, Inspector General

A. Status Reports

Items #1 and #2: Updates from the Inspector General and the Office of Internal Audit

The Committee will receive updates from the Inspector General, Edward L. Blansitt III, and the manager of the Office of Internal Audit, Larry Dyckman. They will provide information about any reports released since their last update; projects they are currently working on; and other matters they think need to be brought to the Committee's attention.

B. Briefing and Discussion Item

Item #3: Work Plan and Projected Budget for the Office of the Inspector General

Section 2-151 of the Montgomery County Code establishes the Office of the Inspector General (OIG) and assigns its goals and responsibilities. It also requires the Inspector General to submit a projected budget and adopt a work plan within six months of being appointed. The Inspector General may amend the plan during his term.

On August 26, 2011, the Inspector General transmitted to the Council President a copy of his office's work plan and projected budget for fiscal years 2012-2013, the period covering his current term. (See ©1 for a copy of this document.) The Inspector General will brief the Committee on his work plan and projected budget. The document has four parts:

- The *Operating Strategy* states the OIG's vision – i.e., to contribute to the continued improvement of County government – and lists four strategic objectives.
- The *Work Plan* identifies:
 - Questions that frame the OIG's work;
 - Proposed initiatives,
 - Priority topic areas, and
 - Performance audit issues for FY 2012 and FY 2013.
- The *Projected Budget* anticipates no increase in either total funding or the number of fulltime positions in FY12 and FY13. In FY13, a projected increase of one part-time position is offset by a corresponding decrease in contract services.
- The *Proposed Performance Measures* consist of outcome, service quality, and workload/output indicators.

The Committee may wish to ask the Inspector General to explain in more detail his proposed initiatives to form an informal Inspector General advisory group and to bring the operation of the OIG fraud hotline in-house.

Copy



064500

JCH
JCH
JCH

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

August 26, 2011

TO: Valerie Ervin,
Council President

Isiah Leggett,
County Executive

FROM: Edward L. Blansitt,
Inspector General

SUBJECT: Office of Inspector General work plan and projected budget

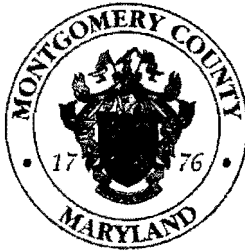
RECEIVED
MONTGOMERY COUNTY

AUG 27 10 2 AM

The work plan and projected budget for the Office of Inspector General for fiscal years 2012 and 2013 is enclosed.

Montgomery County Code §2-151 requires the Inspector General to submit to the County Executive and Council a projected budget for the Office of Inspector General for the entire term within four months of appointment and to submit a work plan for the entire term within six months of appointment. I was appointed Inspector General on April 26, 2011 to complete the unexpired term of retired Inspector General Thomas Dagley which began July 1, 2009 and will end June 30, 2013.

The enclosed document presents a work plan and projected budget for the period covered by my term. If you have any questions or need additional information, please do not hesitate to contact me.



Office of Inspector General

Fiscal Years 2012-2013 Work Plan

&

Fiscal Years 2012-2013 Projected Budget

August 2011

A Message from the Inspector General

Montgomery County Code §2-151 requires the Inspector General to submit to the County Executive and Council a projected budget for the Office of Inspector General (OIG) for the entire term within four months of appointment and to submit a work plan for the entire term within six months of appointment. The County Council appointed me as Inspector General on April 26, 2011 to complete the unexpired four-year term of retired Inspector General Thomas Dagley which began July 1, 2009 and will end June 30, 2013.

This document presents an operating strategy, work plan, and projected budget for the period covered by my term. In development of the work plan, I met with key stakeholders including the County Executive, Council Members, County employees, and some members of community organizations.

In one of my initial meetings, members of a community group recommended that this OIG form an advisory committee consisting of 5-7 County residents to assist in selecting important oversight topics. Having concluded that independence concerns might arise from asking the County Executive and Council to formally create and appoint such a committee, it is my intention to instead create a charter that will serve as the basis for an informal advisory group whose recommendations will be incorporated in future updates to our work plan. I will consult with appropriate County officials and the Council Audit Committee during the development of the proposed charter.

The work plan is detailed on pages 1-4. The projected budget needed to perform this work is presented on page 5. Contractor resources needed in fiscal years 2012-2013 to support our efforts are included in the budget as operating expenses.

I have also included revised OIG performance measures in this document. The measures are aligned with priorities described in the work plan and, when populated with performance results, will be used to help communicate OIG activities and value to the County Council, Executive, and other key stakeholders in the OIG annual reports.

Edward L. Blansitt
Inspector General
August 26, 2011

Office of Inspector General Operating Strategy

Consistent with the goals, authority, and duties found in Montgomery County Code, §2-151, the mission of the Office of Inspector General (OIG) is to promote the integrity, effectiveness and efficiency of programs and operations of County government and independent county agencies; prevent and detect fraud, waste, and abuse in government activities; and propose ways to increase the legal, fiscal, and ethical accountability of County government and County-funded agencies.

Our vision is to contribute to the continued improvement of County government.

Our strategic objectives are to:

- Establish effective working relationships with and earn the trust of our stakeholders.
- Serve as catalysts for positive change throughout the County.
- Address allegations or complaints raised by County leaders, employees and/or residents regarding a wide variety of issues and/or concerns.
- Refer credible allegations of employee misconduct to management for inquiry and appropriate action with response to OIG for appropriate follow-up.

FY 2012-2013 Work Plan

The OIG works to safeguard public resources. We provide an independent means for determining whether management actions are consistent with the intent of the Council and are in compliance with all appropriate statutes, ordinances, and directives. We will address all complaints made to our office that involve County resources, County employees serving in their official capacities, and County activities.

Our work will address the following questions:

- Is the activity effective in accomplishing its stated goals/objectives?
- Are the performance measures used to evaluate effectiveness accurate and reliable?
- Is the activity efficiently using resources to accomplish objectives?
- Are costs reasonable and accurately reported?
- Is the activity in compliance with all rules, regulations, and laws?

Initiatives

Form an informal Inspector General advisory group

It is my intention to create a charter during early FY 2012 that will serve as the basis for an informal advisory group. This group will assist the OIG in remaining current on significant constituent concerns and in selecting important oversight topics. I will consult with appropriate County officials and the Council Audit Committee during the development of the proposed charter for this group.

The committee will consist of a diverse group of 5-7 County resident volunteers from both the public and private sectors, with backgrounds in management, information technology, financial, audit, and legal disciplines. Following the initial organization meeting(s) the group will determine a meeting schedule and agendas for each meeting. I anticipate no more than two meetings annually, the purpose of which will be to review OIG accomplishments and recommend improvements to the OIG work plan. Future updates to this plan will incorporate appropriate recommendations made by the group.

Convert operation of the OIG fraud hotline from a fully contractor-supported activity to a fully staff-supported activity

The fraud hotline, established in late 2006, is currently operated by a contractor who is located outside the State of Maryland. Operating from a site in Georgia, the contractor uses a toll free "800" number for the hotline. The contractor "owns" the phone number, the associated hotline e-mail (reportline@tnwinc.com) and web-based complaint access domain name (www.tnwinc.com/webreport). The primary advantages of using this contract are the contractor's claimed ability to accept calls in over 100 different languages; to accept calls 24 hours per day, seven days per week; and to provide typed complaints that are linked to a web-based case management system.

The current contract will expire in mid-September, 2011. Based on our evaluation of the costs versus the benefits of having the contractor operate our fraud hotline, as follows, it is our conclusion that it is more effective and less costly to assign OIG staff to operate our hotline.

Since the inception of the fraud hotline in December 2006, it has received fewer than 200 complaints. The cost over the life of the current contract has averaged more than \$200 per complaint.

While the contractor claims the ability to receive complaints in many languages, we have no indication that the callers to date have required language assistance to file their complaints.

Because the current contractor owns the hotline phone number, email address, and web access domain name, if a different contractor wins a new procurement competition for the fraud hotline, the current contact information will be lost.

Although the fraud hotline is a toll-free number, almost all of the calls to our hotline should be local calls, originating within commuting distance of Montgomery County. A toll-free number to our current contractor is only necessary because the contractor's site is located in Georgia.

Most importantly, the services of the hotline contractor are very limited. The contractor personnel accept calls and type the information reported into a specific format. They do not ask probing questions. The information collected during the calls is usually very limited, often incomplete, and most often reported anonymously, obviating our ability to obtain sufficient information to determine appropriate action.

Prior to the expiration of the existing hotline contract in September, 2011 we plan to obtain a new phone number that will ring in the OIG office to be answered by staff during business hours and be forwarded to an OIG employee during non-business evening hours. Any incoming calls during late night hours will be directed to voicemail.

We will be able to routinely answer calls in both English and Spanish and will make arrangements to translate other languages on an "as needed" basis.

The new hotline phone number and the OIG mailbox email address will then be promoted, initially in English and Spanish. The contract will be allowed to expire and the savings from discontinuing the contract will support a part-time (30%) professional OIG employee who will be responsible for the hotline after hours and will also provide forensic audit support for both audits and investigations.

Use contract audit support to conduct specific performance audits

As necessary and cost effective, we will supplement staff with qualified external audit contractors where specific expertise is required or where additional resources are needed in order to address urgent matters.

Leverage resources

As appropriate, we will attempt to make our reviews a partnership between our staff and the audited entity which will ultimately be charged with the task of implementing changes in response to our findings and recommendations. This approach will enhance our mutual understanding of the issues without sacrificing our independence or objectivity.

Proactively identify opportunities for improvement

- Develop relationships with our stakeholder communities
- Promote our activities and the Fraud Hotline
- Promptly address matters brought to our attention

Priority Topic Areas

We will promptly review each complaint that is received.

Each complaint will be evaluated to determine whether there are reasonable grounds to suspect waste or inefficiency, a violation of rule, regulation, or law and whether an audit or investigation should be initiated. Investigations will receive the highest priority.

We will modify the work plan as necessary to ensure that unanticipated or urgent issues arising during the period are promptly addressed. Based on information developed as of this date, the priority areas on which we intend to focus OIG audit efforts follow:

- Internal/Management Control Reviews
- Fleet and Asset Acquisition and Management
- Revenue Collection and Enhancement Activities
- Purchase Card Usage
- Organizational Effectiveness—governance, duplication and overlap
- Implementation of Technology Initiatives
- Improper Payments

Specific Audit Issues

The first three performance audits listed for FY 2012 are currently in progress. All others are in the planning stage.

FY 2012:

- The non-public safety vehicle fleet acquisition and management
- The Ethics Commission's procedures and effectiveness
- Financial information provided by Montgomery County Public Schools in support of funding decisions regarding annual operating budgets
- Selected real property tax collections and related matters
- Internal controls over the Public Library collection acquisitions
- Selected property acquisitions and related payment transactions including purchase cards

FY 2013:

- Selected revenue collections and related controls
- Implementation of technology initiatives
- Selected construction projects
- Selected reviews of housing programs
- Selected service contract awards and oversight
- County enforcement of prevailing wage laws
- Selected payments, possible improper payments, and related controls

FY 2012-2013 Projected Office of Inspector General Budget

For FY 2011 and FY 2012, four positions, supplemented by contract audit support, were authorized in the OIG Budget. As of the beginning of fiscal year 2012, the Inspector General and Deputy Inspector General, who conduct and direct audit and investigative activities as well as promote and manage the office, were both on duty. During FY 2012 all currently authorized positions will be filled.

To ensure quality work, accurately capture the essence of interviews, and protect the integrity of the process, two staff members will normally be assigned to work on each significant audit or investigation. Staff members will each be assigned to no more than two to three projects simultaneously.

The projected operating budget, displayed in the table below, presents those resources necessary to support this OIG work plan. Contractor resources used to support our efforts are included in the budget as operating expenses. This budget projects no increase in either total funding or the number of full-time positions between the two fiscal years but provides for an increase of one part-time position with a corresponding decrease in contract services expenses in FY 2013.

Office of Inspector General Projected Budget

Fiscal Year	Total Work Years	Personnel	Operating	Total	Increase over Prior FY
2012 Approved	4.0	\$508,204	\$157,306	\$665,510	N/A
2013	4.3	\$534,000	\$131,510	\$665,510	0.0%

Performance Measures

The OIG work plan places our priorities on responding to issues raised by stakeholders and investigating matters of concern. OIG performance measures to be included in the fiscal year 2013 budget request to the Office of Management and Budget (OMB) in December 2011 will include several revisions. The OIG proposes to use the performance measures identified below to report results beginning with fiscal year 2012.

Proposed OIG Performance Measures
<p>Outcomes:</p> <ul style="list-style-type: none"> • Survey results of stakeholders' views of the OIG • Potential savings resulting from implementation of OIG recommendations
<p>Service Quality:</p> <ul style="list-style-type: none"> • Percent of complaints reviewed and action initiated within 5 calendar days • Complete inquiries within 60 days • Percent of complaints resolved within 90 days • Percent of audits/inspection/investigation reports completed within 6 months
<p>Workload/Outputs:</p> <ul style="list-style-type: none"> • Number of complaints received • Number of administrative actions taken by management in response to investigations involving mismanagement, misconduct, fraud, waste, and abuse • Number of audit/inspection recommendations implemented • Number of significant findings reported through audit and investigative activities

The Office of Inspector General invites the County Council, County Executive, and other key stakeholders to provide comments to (ig@montgomerycountymd.gov)

APPENDIX—Services Performed by the Office of Inspector General

Agreed upon procedures reviews: employ financial audit techniques but with objectives that are different from those of a typical financial statement audit. We plan to perform such procedures to achieve certain objectives, often as part of a review of internal controls or as part of an investigative inquiry.

Financial Statement Audits: testing financial statements to determine whether the statements present fairly, in all material respects, an entity's financial position and changes in financial position and cash flows for the year(s) audited. Montgomery County Comprehensive Annual Financial Report audits are conducted by contractors under the oversight of the Office of Legislative Oversight. Information may surface in the course of this audit that would be appropriate for OIG review.

Inspections: collection and analysis of information used in evaluating specific issues. Steps used in these reviews will be focused on specific questions or issues. The more narrow scope and procedures used in these reviews will tend to reduce the amount of time required to develop findings and recommendations.

Investigations: work conducted to identify fraud, waste, abuse or gross mismanagement, employee or contractor misconduct, and noncompliance with rules, regulations, or laws.

Performance Audits: effectiveness and efficiency reviews—will be conducted in accordance with recognized audit standards. These typically both collect evidence and test the evidence itself to determine whether or not the information collected can be relied upon. Objectives will be to:

- Determine existence of written policies and procedures (controls)
- Determine effectiveness of procedures (control) design for program management
- Determine extent to which procedures are implemented— e.g. whether procedures practiced are consistent with documented procedures
- Determine whether controls are effective
- Determine effectiveness of program compared to measured outcomes
- Verify and validate program measures and related controls over data
- Identify adverse dollar and program effects of control deficiencies.
- Discover errors and or irregularities and/or fraud or misappropriation of funds.

Information collected requires verification and validation through techniques such as review of source documents, third party confirmations, and independent review of documentation.

Surveys: Preliminary review of organizations, issues or topics with the objective of understanding programs and identifying potential deficiencies. Based on the survey a decision will be made regarding whether or not to perform an audit.